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# **Ulster Petroleums Ltd.**

**Annual Report 1971**



# **Ulster Petroleums Ltd.**

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## **Officers & Directors**

Hugh M. Considine	Chairman of the Board and Director
Edward P. Kenney	President and Director
William R. Boswell	Director
Robert R. Walker	Director
Frederick H. Ramsay	Secretary-Treasurer

Mr. R. A. N. Bonnycastle resigned from the Board of Directors on August 17th, 1971. The contributions made to the Company by Mr. Bonnycastle are gratefully acknowledged.

In October, 1971, Mr. William R. Boswell resigned as President of the Company and Mr. Edward P. Kenney was appointed as his successor. Mr. Boswell continues as a Director of the Company.

## **Technical Personnel**

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F. J. O'Shea, B.Sc.	Senior Engineer
M. L. Larson, M.Sc.	Senior Geologist
R. A. Hayes	Landman

## **Annual Meeting**

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The Annual General Meeting of the Shareholders of the Company will be held at the Calgary Inn, Calgary, Alberta, on April 7th, 1972 at 2:00 o'clock in the afternoon. A formal notice of meeting and proxy form are enclosed with this report.

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## **Directors' Report to the Shareholders**

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The Directors' Report for 1971, together with audited Consolidated Financial Statement for the year ending December 31st, 1971, are presented herewith.

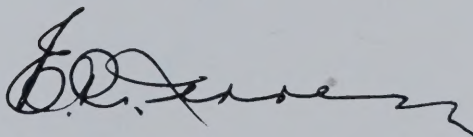
During the year, the Company carried out an aggressive farmout policy as a result of which several transactions described elsewhere in this report were consummated.

Several administrative and operational procedures have been consolidated over the past year which will reflect in lower operating costs in 1972. As at December 31st, 1971, the Company's working capital was \$1,119,403 with no outstanding loans or debt, other than normal operating expenses.

The Company's shares were approved for listing on the Pacific Coast Stock Exchange and trading commenced on this Exchange on August 31st, 1971. This new listing has provided a more convenient market for our many United States shareholders.

Your Directors believe that several major exploration programs, including those in Great Britain, Alaska and Southern Alberta, to be undertaken by Ulster in 1972 will be of great significance to the Company.

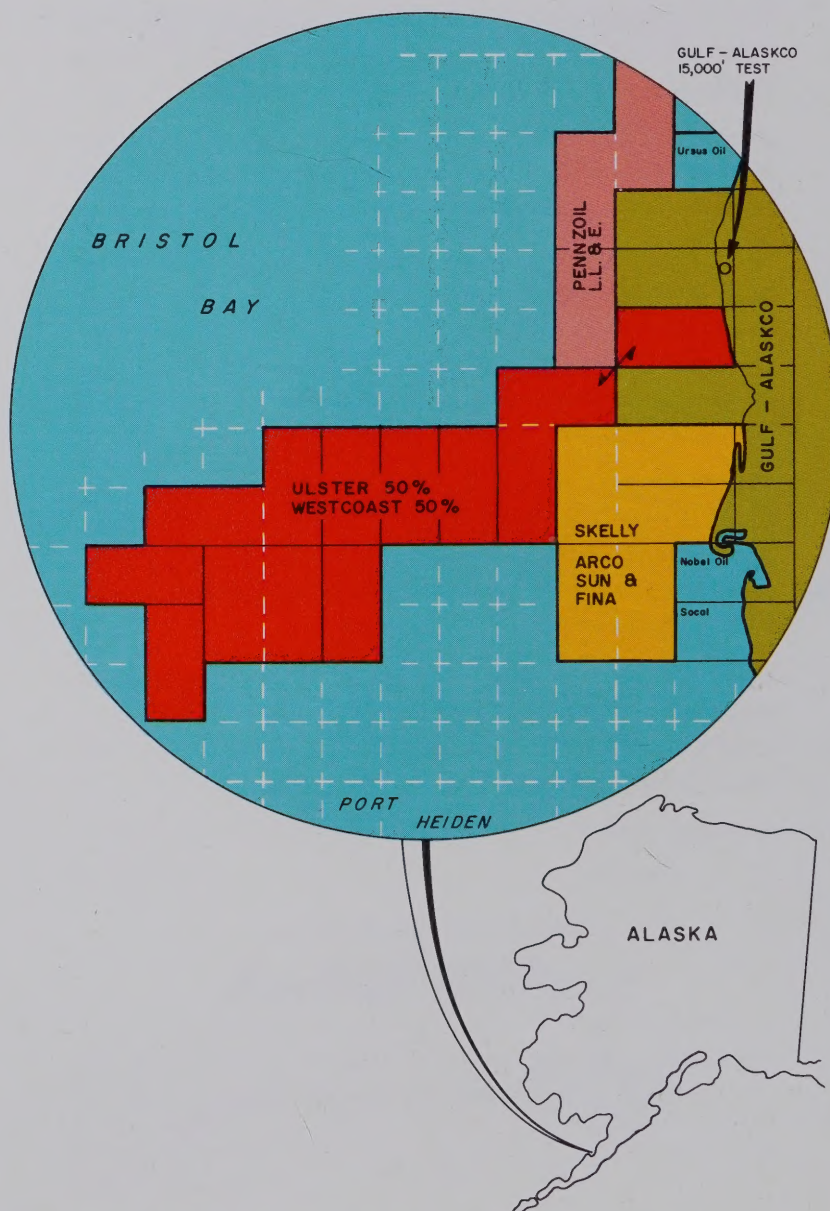
Respectfully submitted on  
behalf of the Board

A handwritten signature in dark ink, appearing to be "J. D. [unclear]", written in a cursive style.

President

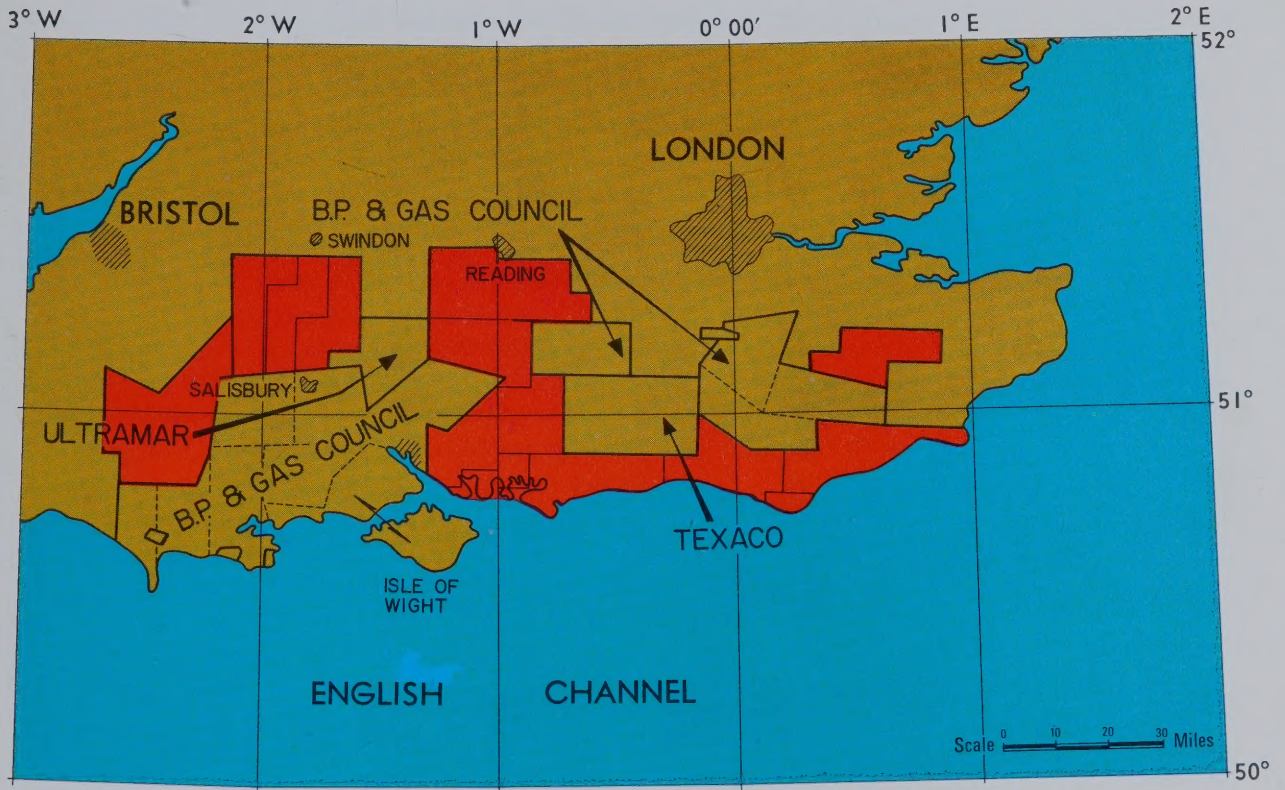


## Bristol Bay, Alaska



Gulf Oil Co. and associates have programmed a 15,000 foot test well adjacent to Ulster's 15,000 acre lease block with drilling to commence by July, 1972. Ulster will acquire all drilling, testing, coring and logging information on this well.

## Southern England



A minimum of four exploratory wells will be drilled on or adjacent to Ulster's properties during 1972.



## **Exploration & Development**

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During 1971, five exploratory wells were drilled on Company properties, all of which resulted in dry holes. Four of these wells were drilled at no cost to Ulster.

One development well was drilled by Ulster under the Ulster Exploration and Development – 1970 Drilling Fund program which resulted in a producing gas well in the Medicine Hat area.

During the year, 340 miles of reconnaissance seismic was shot on the Company's offshore concession in Guyana and 33 miles of reconnaissance seismic was completed in Southern England. In addition, the Company traded for 700 miles of marine seismic in the English Channel and now holds approximately 1,500 miles of seismic in this area.

Ulster completed 85 miles of seismic in the Beaufort Sea which was traded to adjacent land owners for an additional 450 miles surrounding the Company's permits in that area.

The Company also completed 1,320 miles of aeromagnetic surveys on the Company's lands in the Hudson Bay during the year.



## **Financial**

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Revenue from the sale of oil and gas during the calendar year 1971 amounted to \$296,877 up \$56,000 from the previous year. This increase reflects a full year's production from the Plato field. This field has not reached its full potential as the waterflood program has not yet been installed. Interest on investments totalled \$46,225 down from \$139,713 the previous year largely due to reduction in working capital and interest rates as compared to the previous year. Production costs of \$132,532 showed an increase of \$44,000 as compared to the previous year reflecting higher operating costs for a full year's production in the Plato field and, in addition, higher operating costs in the Medicine Hat gas field occasioned by production testing and reservoir evaluation tests.

General and administrative costs were down \$22,000 at \$265,114. This does not reflect a full year's reduction in administrative costs brought about by the reduction in staff and consolidation of administrative procedures which went into effect in the second quarter of 1971. The results of this reorganization will result in a further reduction in this item during calendar year 1972. The net loss for the year amounted to \$254,403 or five cents per share of which amount \$202,556 represented non-cash charges including depreciation and depletion of \$184,691. At the end of the year the Company's working capital amounted to \$1,119,403 as compared to \$1,222,162 on December 31st, 1970. The Company has no long-term debt.

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## **Auditors' Report**

To the Shareholders  
Ulster Petroleums Ltd.

We have examined the consolidated balance sheet of Ulster Petroleums Ltd. and its subsidiaries as at December 31, 1971 and the consolidated statements of income, deficit and source and application of funds for the year then ended. Our examination of the financial statements of Ulster Petroleums Ltd. and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of other subsidiaries.

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta  
March 15, 1972

COLLINS LOVE EDDIS VALIQUETTE & BARROW  
Chartered Accountants



**ULSTER PETROLEUMS LTD. AND SUBSIDIARY COMPANIES**

**Consolidated Statement  
of Income**

YEAR ENDED DECEMBER 31, 1971

	<u>1971</u>	<u>1970</u>
Income		
Oil and gas sales, less royalties .....	\$ 296,877	\$ 240,846
Interest .....	46,225	139,713
Sale of leases and permits .....	8,390	—
Other .....	4,781	13,360
	<u>356,273</u>	<u>393,919</u>
Expenses		
Production costs .....	132,532	88,782
General and administrative .....	265,114	287,532
Lease rentals .....	10,474	11,076
Depreciation and depletion .....	184,691	112,927
	<u>592,811</u>	<u>500,317</u>
Income (loss) before extraordinary item .....	(236,538)	(106,398)
Extraordinary expenses (note 8) .....	17,865	73,396
Net income (loss) for the year .....	<u>\$ (254,403)</u>	<u>\$ (179,794)</u>
Earnings (loss) per share		
Income (loss) before extraordinary item .....	<u>\$ (.05)</u>	<u>\$ (.02)</u>
Net income (loss) for the year .....	<u>\$ (.05)</u>	<u>\$ (.03)</u>

**Consolidated Statement  
of Deficit**

YEAR ENDED DECEMBER 31, 1971

	<u>1971</u>	<u>1970</u>
Deficit, beginning of year .....	\$ (963,919)	\$ (784,125)
Net income (loss) for the year .....	(254,403)	(179,794)
Deficit, end of year .....	<u>\$ (1,218,322)</u>	<u>\$ (963,919)</u>

(See accompanying notes)



**ULSTER PETROLEUMS LTD. AND SUBSIDIARY COMPANIES**

## **Consolidated Statement of Source and Application of Funds**

YEAR ENDED DECEMBER 31, 1971

	<u>1971</u>	<u>1970</u>
Source of funds		
Current operations		
Net income (loss) for the year .....	\$ (254,403)	\$ (179,794)
Depreciation and depletion .....	184,691	112,927
Extraordinary expenses .....	<u>17,865</u>	<u>73,396</u>
Gain (loss) of funds from operations .....	(51,847)	6,529
Proceeds from sale of property and equipment .....	391,466	358,062
Sale of investments and refund of deposits .....	69,373	83,681
Return of investment in limited partnership .....	9,836	—
Sale of interests in limited partnership .....	—	572,943
Sale of capital stock .....	<u>—</u>	<u>17,600</u>
	<u>418,828</u>	<u>1,038,815</u>
Application of funds		
Purchase of property and equipment .....	521,587	2,677,495
Costs of amalgamation and U.S. registration .....	—	69,136
Purchase of investments and deposits .....	<u>—</u>	<u>1,501</u>
	<u>521,587</u>	<u>2,748,132</u>
Increase (decrease) in working capital .....	(102,759)	(1,709,317)
Reclassification of liabilities (note 4) .....	—	176,219
Working capital, beginning of year .....	<u>1,222,162</u>	<u>2,755,260</u>
Working capital, end of year .....	<u>\$ 1,119,403</u>	<u>\$ 1,222,162</u>

(See accompanying notes)

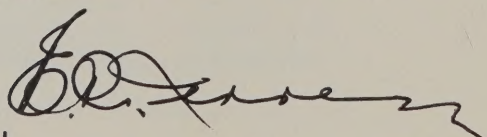
**Consolidated**

DECEMBER

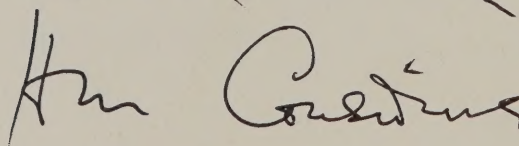
**ASSETS**

	<u>1971</u>	<u>1970</u>
Current assets		
Cash .....	\$ 85,866	\$ 75,893
Time deposit receipts .....	1,046,250	1,147,117
Accounts and notes receivable .....	89,130	184,296
Prepaid expense .....	2,583	3,215
	<u>1,223,829</u>	<u>1,410,521</u>
Investments and other assets, at cost		
Investments in marketable securities (quoted market value \$21,712 at December 31, 1971 and \$73,050 at December 31, 1970) .....	93,447	167,058
Limited partnership (note 9) .....	11,060	107,442
Refundable deposits and other .....	65,110	78,064
	<u>169,617</u>	<u>352,564</u>
Property, plant and equipment (notes 2 and 3) .....	<u>4,490,352</u>	<u>4,459,049</u>
	<u>\$ 5,883,798</u>	<u>\$ 6,222,134</u>

Approved on behalf of the Board,



Director



Director



## Balance Sheet

31, 1971

## LIABILITIES

	<u>1971</u>	<u>1970</u>
Current liabilities		
Accounts payable .....	\$ 104,426	\$ 188,359
Deferred income taxes (note 1) .....	30,000	30,000
Due under agreement to acquire Alaska leases		
(\$163,743 U.S.) (note 4) .....	176,219	176,219

## SHAREHOLDERS' EQUITY

Capital stock (note 6)		
Authorized		
8,000,000 shares of no par value		
Issued		
5,304,675 shares at December 31, 1971 and 1970 .....	6,791,475	6,791,475
Deficit .....	(1,218,322)	(963,919)
	<u>5,573,153</u>	<u>5,827,556</u>
Commitments and guarantees (note 5)		
	<u>\$ 5,883,798</u>	<u>\$ 6,222,134</u>

(See accompanying notes)

# Notes to Consolidated Financial Statements

DECEMBER 31, 1971

## 1. Principles of Consolidation

The consolidated financial statements of the Company include the accounts of Ulster Petroleum Ltd. and all subsidiary companies. The excess of the purchase price of shares of subsidiary companies over their underlying book value has always been added to the "Property, plant and equipment" account with the exception that in one case a provision for future income taxes of \$30,000 was recorded. Intercompany accounts and transactions have been eliminated in consolidation.

## 2. Accounting policy

The Company follows the full cost method of accounting for its Canadian operations. Under this concept all costs, including a portion of administrative expenses, relating to the exploration for and development of oil, gas and mineral reserves are capitalized. Proceeds on disposal of properties are ordinarily deducted from costs without recognition of profit or loss.

Costs associated with Canadian operations are depleted using the unit of production method based on estimated recoverable Canadian reserves. Depletion on costs associated with operations in foreign countries will be based upon production from related reserves as and when discovered.

Depreciation of well and other equipment is computed on the diminishing balance basis at a rate of 20% per annum.

## 3. Property, plant and equipment

The following is a summary of the cost of property, plant and equipment and related accumulated depletion and depreciation as at December 31, 1971:

	Cost of Assets	Accumulated Depletion and Depreciation	Net
Petroleum and natural gas leases and rights, including exploration and development (note 2)			
— Canada .....	\$ 2,765,544	\$ 215,709	\$ 2,549,835
— Alaska .....	958,817	—	958,817
— United Kingdom .....	147,138	—	147,138
Mining properties including preproduction and exploration costs .....	507,178	—	507,178
Production equipment .....	404,437	109,854	294,583
Other equipment .....	61,501	28,700	32,801
	<u>\$ 4,844,615</u>	<u>\$ 354,263</u>	<u>\$ 4,490,352</u>

## 4. Due under agreement to acquire Alaska leases

In 1968 a subsidiary paid \$130,234 in order to acquire an interest in certain oil and gas lease applications (preferential filings) in the State of Alaska. The oil and gas leases have not been issued pending settlement of native claim rights to the properties. The balance owing on the acquisition of these rights (\$176,219) will be paid when and if such leases are issued to the Company. The Company reclassified the balance owing as a non-current liability.



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## 5. Commitments and guarantees

The companies are committed for work performance in the period January 1, 1972 to December 31, 1973, on certain oil and gas exploratory and prospecting permits to the amount of \$355,756. These commitments are secured by the following:

Bank guarantees .....	\$336,610
Cash deposits .....	19,146
	<u>\$355,756</u>

## 6. Capital stock

The Company has reserved 200,000 shares of its capital stock for issuance under an employees stock option plan. Stock options outstanding at December 31, 1971 totalled 130,000 shares at \$2.20 per share exercisable in the period 1972 to 1979. Subsequent to December 31, 1971 stock options for 60,000 shares of the Company were relinquished. Upon exercise of the options, the proceeds are credited to the capital stock account.

## 7. Executive remuneration

The total remuneration paid to directors and senior officers of the Company amounted to \$89,410.

## 8. Extraordinary items

- (a) The 1970 extraordinary item represents costs of amalgamation, costs of registering the Company with the Securities and Exchange Commission of the United States and incorporation costs written-off.
- (b) The 1971 extraordinary item represents losses on the disposal of property, plant and equipment and marketable securities.

## 9. Limited Partnership

The Company is the sole general partner of Ulster Exploration and Development Program – 1970, a limited partnership formed pursuant to the California Uniform Limited Partnership Act for the purpose of exploring for oil, gas and other minerals.

The Limited Partnership Agreement provides that the Company, as general partner, is required to pay all capitalized costs (as defined, which excludes lease costs) necessary to equip a well up to and including the installation of the wellhead, to pay 35% of any production facilities and equipment installed after installation of the wellhead, and to pay 35% of all operating costs.

Income from producing wells and proceeds from the sale of properties is credited 65% to the limited partners and 35% to the Company, as general partner.

Limited partnership investments totalled \$680,385 (\$670,000 U.S.) including an investment of \$107,442 (\$105,000 U.S.) by the Company, as a limited partner. This investment has been accounted for on the equity basis and as a result expenditures by the partnership on behalf of the Company on oil and gas properties and equipment less drawings have been added to property, plant and equipment. In 1971 these expenditures totalled \$86,549.

## **Exploratory Properties**

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The Company currently holds 7,622,914 gross acres and 4,651,284 net acres in Canada, the United States, Italy, United Kingdom and South America. In addition, 2,366,471 gross acres containing 1,911,041 net acres have been applied for in Canada, the United States and the United Kingdom.

### **Total Acreages by Areas as of December 31, 1971**

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	<u>Gross</u>	<u>Net</u>
CANADA:		
Alberta	167,025	89,662
Saskatchewan	23,751	14,156
British Columbia	1,331	851
Manitoba	320	320
Ontario	850	106
East Coast (Permits)	951,167	398,029
Hudson Bay (Permits)	912,482	912,482
Baffin (Permits)	544,159	81,624
Davis Strait (Permit Applications)	1,564,310	1,407,879
N.W.T. (Permits)	469,049	109,135
Arctic (Permits)	1,973,903	1,778,888
Mining Properties – N.W.T.	1,800	1,800
– W. Ont.	3,400	340
Royalties (1% - 5%)	658,331	—
TOTAL	7,271,878	4,795,272
FOREIGN:		
United States		
Leases	21,574	10,427
(Lease Applications)	346,461	47,462
Italy	72,353	7,235
United Kingdom		
(Licences)	1,287,659	1,212,869
(Licence Applications)	455,700	455,700
South America		
Guyana (Offshore)	533,760	33,360
	2,717,507	1,767,053
TOTAL	9,989,385	6,562,325



## **Farmouts**

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During 1971, the following farmout transactions were completed by the Company.

### **Yukon Territory**

The Company assigned its 100% working interest in a 26,000-acre permit to Clark Canadian Exploration Company for a cash consideration of \$350,000.00 and retained a 3% gross overriding royalty from all production on the property.

### **Baffin**

The Company assigned an 85% interest in 544,000 acres of permits offshore Baffin Island to Getty Oil (Canadian Operations) Ltd. in consideration of Getty undertaking work programs over a six-year period.

### **Arctic Islands (Russell Island)**

Ulster farmed out a 10% working interest to Aquitaine Company of Canada Ltd. on 106,000 acres of permits on Russell Island in consideration of certain exploration undertakings by Aquitaine. Further options for work requirements would allow Aquitaine to earn an additional 40% interest in these lands.

### **Williams Creek, Alberta**

Ulster and its partners farmed out 260 acres of leases to Pan Ocean Oil (Canada) Ltd. under arrangements which require seismic and the drilling of a well in the second quarter of 1972.

### **Sombra County, Ontario**

Seis-Ex Geophysical Ltd. entered into a seismic-drilling agreement with Ulster and its partners on 850 acres of leases which requires the drilling of a well early in 1972.

### **Glen Park, Alberta**

Lochiel Exploration Ltd. has undertaken to drill a Devonian (D-3) test well on a 640-acre block held by Ulster and Westates Exploration Company in March of 1972 to earn a 50% interest in these lands. Ulster will retain a 25% working interest.

### **South Golden Spike, Alberta**

Newman Brothers Drilling Company undertook to drill a well on 640 acres of leases held by Ulster and Westates Exploration Company. The well was drilled in the fall of 1971 and was subsequently abandoned before reaching contract depth and no interest was earned by the farmee.

## ***Marine Seismic, Banks Island***

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Summer of 1971 saw Ulster Petroleums involved in marine seismic operations in the Beaufort Sea region; results of this programme are currently being interpreted.



## **Production**

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Crude oil production during 1971 averaged 239 barrels per day as compared to 295 barrels per day during 1970. This decline in production is primarily attributable to the decline in primary reserves in the Plato, Saskatchewan field where the waterflood program has not been effected as quickly as originally planned.

Present plans are for the waterflood and consequent recovery to go into effect in the spring of 1972. The flood effects should result in an increase in production early in 1973.

Natural gas production averaged 2.0 million cubic feet per day in 1971 as compared to 2.04 million cubic feet per day in 1970. Actual production in 1971 fell short of estimated production due to the fact that several wells drilled in the Medicine Hat field did not fulfil expectations indicated by drill stem tests. Four wells which indicated initial productive capacity were subsequently abandoned and production from several other wells was less than anticipated. The Company's gas reserves are located principally in the Medicine Hat, Alberta, area and it is anticipated that price increases will be effected in this area by the fall of 1972. A production-testing program is presently under way in this field. Early indications are that an appreciable increase in sales gas volumes from this area will be realized beginning in the third quarter of 1972.



## 1972 Program

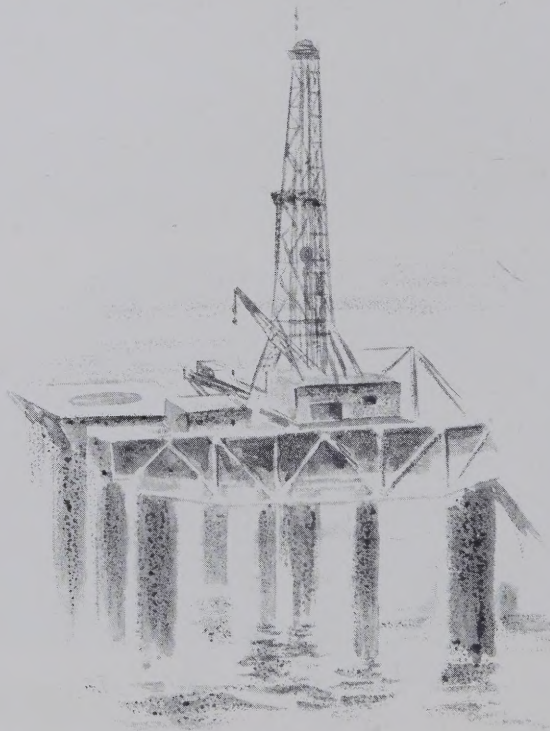
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The Company intends to drill at least one exploratory well on its properties in Southern England during the summer of 1972.

It is anticipated that a 15,000 ft. test well will be drilled in the Port Heiden area of Alaska during the summer of 1972. This well will be located one-half mile from the Company's 15,000-acre lease block in which it holds a 50% working interest.

In January 1972, Ulster acquired a 5% working interest in an 11,000-acre permit in the Claresholm area of Alberta for a cost to Ulster of \$76,000.00. Ulster and its partners will be conducting a detailed seismic program on these lands early in 1972. At least one well will be drilled on this prospect which is already offset by Mississippian production.

Additional seismic has been undertaken by Ulster and its partners on its Italian concession in the Adriatic Sea.





# **Fiduciary**

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## **Auditors**

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Collins, Love, Eddis, Valiquette & Barrow  
CALGARY, ALBERTA

## **Bankers**

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Bank of Montreal  
CALGARY, ALBERTA

The Royal Bank of Canada  
CALGARY, ALBERTA

The Toronto Dominion Bank  
CALGARY, ALBERTA

## **Registrars and Transfer Agents**

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The Canada Trust Company  
CALGARY, VANCOUVER, WINNIPEG, TORONTO  
and MONTREAL

Security Pacific National Bank  
LOS ANGELES, CALIFORNIA, U.S.A.

## **Stock Exchange Listing**

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Listed on the TORONTO and VANCOUVER  
Stock Exchanges and the Pacific Coast Exchange,  
LOS ANGELES and SAN FRANCISCO, CALIFORNIA,  
U.S.A.

## **Subsidiary Companies**

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United States:  
Ulster Petroleums Inc.

United Kingdom:  
Ulster Petroleums (Canada) Limited

Ulster Oil Enterprises Ltd.

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